

MINUTES

KANSAS ELECTRIC TRANSMISSION AUTHORITY

December 3, 2007
Room 519-S—Statehouse

Members Present

Rep. Carl Holmes, Chairperson
Earnie Lehman, Vice-Chairperson
Tim McKee, Secretary
Senator Jay Emler
Les Evans
Rep. Annie Kuether
Senator Janis Lee

Staff Present

Mary Galligan, Kansas Legislative Research Department
Cindy Lash, Kansas Legislative Research Department

Chairperson Holmes called the meeting to order at 9:00 AM. The Chairperson added to the printed agenda discussion of the upcoming meeting of state transmission and infrastructure authorities in Santa Fe, New Mexico. *Representative Kuether made, and Senator Emler seconded, a motion to approve the agenda as amended. The motion passed.*

The Chairperson opened the floor to discussion of the November meeting minutes. *Mr. McKee made, and Mr. Lehman seconded, a motion to approve the minutes as presented. The motion passed.*

The Chairperson directed the Board's attention to the expenditure report (Attachment 1). No action was required.

The Chairperson opened the floor for discussion of the amendment of the contract with Stevens and Brand, LLP (Attachment 2). He explained that the amendment incorporated into the contract standard language required by the Department of Administration. *Mr.*

McKee made, and Senator Emler seconded, a motion to ratify the Chairperson's action executing the "First Amendment to Contract for Management and Legal Services." The motion passed.

The Chairperson recognized Mr. McKee regarding the meeting of state authorities in Santa Fe on December 6 and 7. Mr. McKee noted that he and Mr. Evans would represent the Board at the meeting. Mr. Evans reported that he will make a presentation regarding recent KETA activities.

The Chairperson noted that the Board would regularly receive information regarding progress toward completion of announced transmission projects at its meetings in the future. He recognized Tom Stuchlik, Westar Energy, for updates on the Wichita-Reno-Summit and Rose Hill-Sooner transmission line projects. Mr. Stuchlik informed the Board that most of the right-of-way for the line has been secured. The detailed engineering for the line is approximately one-half completed. Westar expects to complete the transmission line by December 1, 2009.

Mr. Stuchlik noted that Westar has selected a route for the Rose Hill-Sooner line and that the company plans to file that route with the Kansas Corporation Commission (KCC) this month. The company expects to begin right-of-way acquisition after the first of the year (2008) and expects to complete the project in late 2010.

The Chairperson recognized Carl Huslig, ITC Great Plains, who provided information regarding the "Kansas V Plan", a 180-mile-long transmission line that will run from Spearville via Comanche County to Wichita. He informed the Board that in July, ITC Great Plains sent to the Southwest Power Pool (SPP) a letter of intent to build that line. SPP has designated ITC Great Plains as the project sponsor, but not the owner-builder, of that line. The project sponsor agreement with SPP has not been finalized. Once the project sponsor agreement has been signed, ITC Great Plains will be able to request authorization from the KCC to build the line. ITC Great Plains has engaged an engineering firm to begin planning the line. The company currently anticipates a service date for the line of early 2011. Mr. Huslig informed the Board that ITC Great Plains has engaged a consultant to prepare an economic study for both the "Kansas V Plan" and the KETA project without the Holcomb expansion (Attachment 3).

The Chairperson opened the floor to questions from the Board to Mr. Huslig. Senator Lee asked whether KETA would be able to review the economic study results. Mr. Huslig responded that he would make the report, but not the confidential data used in the model, available to the Board.

Mr. McKee asked what ITC's designation as "project sponsor" means. Mr. Huslig responded that it means that ITC Great Plains has agreed to fund the project.

Mr. Lehman asked about the significance of the project being characterized as an economic project in relationship to cost recovery. Mr. Huslig said that ITC is building the project because of the benefit to the region. He noted that the appropriate cost allocation method for projects would be a "postage stamp" method so that everyone within the region

paid the same rate for the transmission service. Mr. Lehman asked whether that would provide a wider basis for cost recovery than the method currently used by SPP. Mr. Huslig responded that it would. He explained that SPP currently allocates costs for economic projects based on benefits received, rather than allocating costs equally across the SPP area. He noted that in at least one area of the country, there is no difference in the allocation of costs for economic and reliability projects.

Mr. Lehman asked whether ITC would be its own "zone" for purposes of SPP cost allocation. Mr. Huslig responded that it probably would not. Mr. Lehman asked when the economic study would be completed. Mr. Huslig responded that it may be completed in the first quarter of 2008 if the study is begun in December.

Senator Lee asked who bears the cost of interconnections. Mr. Huslig said that those costs are treated like all other project costs.

Mr. McKee asked for an example of postage stamp cost allocation. Mr. Huslig responded that under that type of allocation, the revenue requirement for all of SPP would increase by the amount required for the project. Mr. McKee asked for an example of the other approach. Mr. Huslig said that an example might be the Reno-Wichita project for which Westar's customers pay the costs.

Chairperson Holmes asked whether the cost recovery method used by the SPP for economic projects poses a risk. Mr. Huslig responded that there is some risk in the method.

Mr. McKee asked whether Westar plans to build wind generation capacity. Mr. Stuchlik said that Westar is currently before the KCC on a predetermination in regard to the company's wind generation plan. The company also has a request before the SPP for transmission capacity for wind-generated electricity.

Mr. Lehman asked what it would take to justify an economic project under the SPP model. Mr. Huslig explained that the cost benefit ratio must be greater than one. That means that the benefits must outweigh the costs over a ten-year period.

In regard to the KETA project, Mr. Huslig informed the Board that ITC Great Plains has engaged Black and Veatch engineering firm, has a draft filing before the KCC, has sent information to Midwest Energy and Sunflower regarding the line, and has met with the Nebraska Public Power District, which is in favor of the project. On October 30, the SPP approved ITC Great Plains as the project sponsor for the line.

The Chairperson recognized Paul Schulze, Director of Governmental Affairs for Hunt Transmission Services. Mr. Schulze presented written material to the Board (Attachment 4). Mr. Schulze informed the Board that the company is interested in the project, but is not in a position to commit to it at this time.

Senator Lee asked how many miles of transmission line Hunt currently owns and operates. Mr. Schulze answered that the company currently has 15 miles of transmission line. He also noted that the company has not yet been approved to build the transmission loop in the Competitive Renewable Energy Zone (CREZ).

The Chairperson recognized Jay Caspary, SPP. Mr. Caspary informed the Board that the SPP staff is working on the ITC Great Plains sponsorship agreement mentioned by Mr. Huslig. He told the Board that the existing SPP tariff gives existing transmission owners the right of first refusal for new transmission capacity. He also informed the Board that after the air permit for the Holcomb expansion was denied, Midwest Energy, Sunflower, and Golden Spread withdrew their transmission requests. He said that in the SPP analysis, the Holcomb plant was the driving need for the west ½ of the X-Plan as a reliability project in 2012. Without the Holcomb plant, the need for that part of the line for reliability purposes has been pushed back from 2015 to 2020 because of planned gas-fired generation in New Mexico. Mr. Caspary submitted his written statement to the Board (Attachment 5). He noted that SPP expects to see the amount of wind-generated electricity in the southwest corner of the SPP footprint to double or triple. He also noted that several entities are competing to build out the X-Plan and he thinks it will still be the best plan after the Oklahoma study is completed.

The Chairperson opened the floor to questions from the Board to Mr. Caspary. In response to a question, Mr. Caspary said that the need for the X-Plan for reliability will be moved further into the future without the Holcomb expansion. Mr. Caspary noted that the amount of wind-generated electricity will increase by two to three times in the near future.

Mr. Evans asked why the SPP aggregate study for 2006 is still open and how that impacts the current year. Mr. Caspary responded that the delay is caused by customers who are unable to make firm commitments and therefore drop out. That necessitates another round of analysis. Mr. Caspary said that a restudy may cost \$50,000 to \$70,000. The impact on other customers is delay. SPP is considering charging companies that drop out.

Senator Lee asked who determines who must pay for interconnections. Mr. Caspary responded that it is usually the generation developer. Senator Lee asked whether there were any circumstances under which customers of the local utility would have to pay the interconnection costs for new wind generation capacity. Mr. Caspary responded that if the local utility did not receive revenues for transmission service using the interconnection, it would ultimately have to pay back the interconnection costs plus interest. In response to a followup question from Mr. Lehman, Mr. Caspary said this could happen where the utility receiving the wind energy is not in the same transmission zone as the local utility.

The Chairperson recognized Mr. Tom Stuchlik who presented written responses to questions posed by the Board prior to the meeting (Attachment 6).

The Chairperson recognized Noman Williams, of Sunflower Electric Corporation who presented written testimony to the Board (Attachment 7). In response to a question from Senator Lee, Mr. Williams estimated that gas-generated electricity is 6 to 7 times as expensive as electricity generated from coal.

The Chairperson recognized Jeff Hofaker, the Director of the Phillips County Economic Development Committee, who presented a written statement to the Board (Attachment 8).

The Chairperson informed the Board that a written statement had been submitted by Midwest Energy (Attachment 9).

Mr. McKee asked about the AC-DC tie. Mr. Williams responded that a tie would help move renewable energy to Colorado. Mr. McKee asked whether it would be reasonable to study the cost of an AC-DC tie for wind energy. Mr. Williams responded that it would make sense, but would require additional transmission capacity in eastern Colorado, and that may not be feasible without the Holcomb plant.

The Chairperson recognized Steve Gaw, consultant, who suggested that the Board communicate its concerns about interconnection costs to the SPP. Mr. McKee asked whether the Federal Energy Regulatory Commission (FERC) is aware of the problem with those costs. Mr. Gaw said it is, but that FERC has allowed the regional transmission organizations to set their own cost allocation methods.

Mr. Stuchlik observed that the SPP has a filing pending before the FERC to allocate interconnection costs to wind farm developers.

The Chairperson opened discussion of the contents of the annual report. The Board gave staff direction for the contents of the report and asked that a draft be circulated for Board member review so that the final report can be prepared in time for submission to the Governor and the Legislature on January 14.

Senator Lee asked whether KETA has authority to spread interconnection costs beyond the incumbent utility. If it does, how would that be done? The Board reached agreement that Mr. Lehman and Senator Lee should formulate questions relative to that issue for submission to KETA's counsel for an answer.

Mr. Lehman made, and Senator Emler seconded, a motion that the Board send a letter to ITC Great Plains recognizing that it had submitted the only complete response to the KETA notification of intent to build the Spearville-Axtell transmission line. The contents of the letter would be subject to the approval of KETA's counsel. The motion passed.

The Board set the next meeting for February 8, 2008 at 1:30 PM.

The Chairperson adjourned the meeting at approximately 1:30 PM.

Respectfully submitted,

Tim McKee, Secretary

Approved by the Board
February 8, 2008